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Irving Trust Company A Charter New York Bank
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Economic Research
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Financial Markets

Friday November 2, 1979

Market participants seemed to be resigning themselves to the current volatile price environment, in which wide one-day trading swings of a point or more have become commonplace. This week, the markets, though far from happy, appeared to be adjusting. The economic news held no surprises, and the Treasury's $6.75 billion quarterly financing did generate some retail interest--though it was mixed. Not surprisingly, the 3-1/2-year note issue got the most favorable reception from liquidity-conscious investors, who walked away from the auction with a record 11.64% average yield. The 10-year note and 30-year bond were less warmly received, though they too carried record yields of 10.75% and 10.44%, respectively.

The latest inflation news was about as expected. The October producer price index was up at a 12% annual rate, a relief from the 16.8% registered in September. But it virtually assures a 12.5% pace for all of 1979. A 0.8% increase in the September index of leading indicators might ordinarily have discouraged bond market participants who are looking for some clear evidence of an economic downturn as the remedy for stubborn double-digit inflation. Nor did the labor market results for October--a small decline in employment that pushed the unemployment rate up to 6.0%--signal any significant softening in business activity. But it is probably too soon for the data to reflect the effects of the Federal Reserve's October 6 shift toward a more aggressive monetary policy stance. While the sharp escalation in rates since early October has clearly had an unsettling near-term influence on the markets, it does hold out the prospect that credit policy will eventually bring money and credit under control, point the way to moderating inflation, and permit the long-awaited turnaround in interest rates.

The Federal Reserve's monetary statistics brought more evidence of monetary weakening in October. Declines of $1.3 billion and $1.2 billion in M_1 and M_2 respectively were reported for the week of October 24; these were in addition to further downward adjustments in the figures for the prior three weeks. It now appears that October growth for M_1 will be about 4%, the slowest since May. And though the Federal Reserve this week injected reserves into the banking system for what appeared to be technical reasons, it remains to be seen whether stability will mark near-term monetary policy. The Fed has indicated it will concentrate on reserve expansion as its policy trigger; and so far, reserve growth is still going strong.

For example, the monetary base, as constructed by the Federal Reserve Board, was up by $1.4 billion last week and, over the past four weeks, has increased at close to a 13% annual rate, up from the roughly 11% of the prior three months. (The acceleration in the base mirrors a similar acceleration in total reserves over the same period.) If the Fed is tracking reserves, the recent behavior of these measures at least suggests that there is still room for further monetary tightening.

Glenn C. Picou

Money Market Rates

Irving Trust Company A Charter New York Bank

	11/2/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.00%	10.50%
Effective since	11/1/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	14.88	15.14	9.94
Repurchase Agreements	12.00	12.75	8.88
U.S. Treasury Issues - Yields			
Bills			
3 months	12.50	12.30	8.95
6 months	13.03	12.95	9.95
1 year	12.90	12.50	10.00
Coupons			
2 years	12.10	12.11	9.50
4 years	11.45	11.29	9.00
7 years	10.90	11.03	8.78
10 years	10.80	10.85	8.86
Long Bond	10.40	10.30	8.75
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.35	14.25	9.80
3 months	14.60	14.50	10.80
6 months	14.65	14.50	11.05
1 year	14.30	14.25	11.25
Bankers' Acceptances			
1 month	14.25	14.05	10.00
3 months	14.70	14.40	10.50
6 months	14.80	14.70	10.75
Eurodollar Deposits			
1 month	15.00	15.31	10.31
2 months	15.63	15.50	11.19
3 months	15.63	15.75	11.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.50	12.00	9.13
1 month	14.13	13.90	9.50
3 months	12.88	12.88	9.63
Bank Holding Companies			
1 month	14.25	14.00	9.50
Dealer Placed:			
3 months	14.40	14.25	10.13
New Aa Corporate Utility Bond	11.45	11.75	9.35
Tax Exempt			
6 month Project Notes	6.30	6.30	5.00
12 month Project Notes	6.50	6.00	5.15
20 year AAA Bond	6.70	6.85	5.75

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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